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Mail Carrying Railways Underpaid

A Statement by the Committee
on Railway Mail Pay representing
214,275 miles of Railway in the
United States, operated by 268
companies, containing facts and
figures which prove that Railway
Mail Pay does not equal the oper-
ating expenses that it makes nec-
essary, leaving nothing for return
upon the value of the property.



THE COMMITTEE ON RAILWAY MAIL PAY

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Director of Maintenance and Operation, Union and
Southern Pacific Systems

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A STATEMENT

By the

Committee on Railway Mail Pay

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October, 1912.

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RECEIVED
U.S. POST OFFICE DEPARTMENT
MAY 1913

I. SCOPE OF THIS PAMPHLET.

The Committee on Railway Mail Pay, representing railways whose lines include ninety-two per cent. of the aggregate length of all railway mail routes in the United States, believes that the payments to the railways for the services and facilities furnished by them to the Post Office Department are, and for a long time have been, unjustly low. This pamphlet contains a concise statement of the facts which prove that this belief is warranted and, incidentally, a refutation of the estimates made by the Postmaster-General, and reported to the Congress (House Document No. 105, Sixty-second Congress, first session), which led him to conclude that the basis of payment could now properly be changed so as to accomplish a present reduction of about twenty per cent. It will be shown that although the insufficient data and the erroneous methods employed by the Postmaster-General resulted in his making estimates of cost to the railways that are far below the real cost, his own figures and calculations, when properly analyzed and supplemented, demonstrate that the mail service has not been fairly remunerative to the railways.

Before proceeding to this demonstration it should, however, be noted that—

II. RAILWAY MAIL PAY IS ABOUT TO BE FORCED STILL FURTHER BELOW THE LEVEL OF JUST COMPENSATION, UNLESS PAYMENTS ARE PROMPTLY READJUSTED, ON ACCOUNT OF THE ADDITIONAL VOLUME OF MAIL THAT WILL RESULT FROM THE INAUGURATION, ON JANUARY 1, 1913, OF THE PARCELS POST.

Congress has provided for a vast and incalculable extension of mail traffic by creating a "Parcels Post," to be inaugurated on January 1, 1913, which, by opening the mails to many articles not previously accepted at the post-offices and by materially reducing the rates on mailed merchandise, is expected enormously to increase the volume of the shipments which it covers. The Government seems to have assumed that, under existing contracts, which were made before the meaning of the word "mail" was thus extended, the railways can be compelled, until these contracts expire, to carry this great additional volume of mail traffic WITHOUT ANY COMPENSATION WHATEVER. If the former practice of the Post Office Department is followed, no new contracts will be made until after the next quadrennial weighings in each

of the four weighing sections, so that the position of the Government amounts to an assertion that the whole added volume of the Parcels Post mails will have to be carried without any compensation by the railways of New England for four years and six months (these railways are in the first weighing section but the weighing for the adjustment to be made on July 1, 1913, has begun and will be completed before the Parcels Post is inaugurated), by those of the second weighing section for three years and six months, by those of the third weighing section for two years and six months, by those of the fourth weighing section for one year and six months, and by those of the first weighing section, not located in New England, for six months. No presentation of the injustice of the mail pay received in former years suggests even the approximate extent of the losses which the railways will thus incur in the next four and one-half years, unless readjustments are promptly made on account of the Parcels Post.

III. THE POSTMASTER-GENERAL'S ERRONEOUS ASSERTION THAT THE RAILWAYS WERE OVERPAID "ABOUT \$9,000,000.00" IN THE YEAR 1909, RESTS PRIMARILY UPON HIS ADOPTING AN UNPRECEDENTED THEORY WHICH ALLOWS NOTHING FOR A RETURN UPON THE CAPITAL INVESTED IN RAILWAY PROPERTY.

The Postmaster-General assumed that the railways would be properly compensated if they received a sum equal to the operating expenses and taxes attributable to the carriage of the mails plus six per cent. of the sum of those expenses and taxes. The calculation by which he obtained the sum which he assumed would have been proper compensation for the single month covered by his investigation was as follows:

His estimate of operating expenses and taxes on account of mail service (Document No. 105, p. 280) for one month.....	\$2,676,503.75
Six per cent. of above.....	160,590.22
Total, assumed to represent just compensa- tion for one month.....	\$2,837,093.97

The railways having been paid, for the month selected, \$770,679.16 in excess of the sum resulting from the above calculation, the Postmaster-General assumed that this excess over expenses and taxes plus six per cent. constituted excessive profit for that month. He multiplied this assumed excess by twelve to get his estimate of annual excess and stated the result, in round figures, as "about \$9,000,000."

The mere statement of this method discloses the fact that it makes no allowance for any return upon the fair value of the railway property

employed in the service of the public. This omission is, of itself, sufficient wholly to destroy the Postmaster-General's conclusion. Everyone recognizes that a railway is entitled to at least a reasonable return upon the value of its property devoted to the public service. The Postmaster-General ignored this universally accepted principle and adopted a theory which, if applied to the general business of the companies, would render substantially every mile of railway in the United States immediately and hopelessly bankrupt. The recently published report of the Interstate Commerce Commission on the railway statistics of the year that ended with June 30, 1910, contains data by which this statement is easily demonstrated, as follows:

Operating expenses of all United States railways, for the year.....	\$1,822,630,433
Taxes of all United States railways, for the year.....	103,795,701
<hr/>	
Total	\$1,926,426,134
Six per cent. of above total.....	115,585,568
<hr/>	
Total gross receipts permitted by Postmaster-General's plan	\$2,042,011,702

But if this plan had been in force, the railways would have had, for interest on mortgage bonds, a reasonable surplus as a margin of safety, dividends on stocks, unprofitable but necessary permanent improvements,* rents of leased properties, etc., etc., only the six per cent. or \$115,585,568. This figure may be compared with the following, among others:

Interest obligations (on funded debt only) of all United States railways, for the same year..	\$370,092,222
Rentals of leased properties, all United States railways, for the same year.....	\$133,881,409

Plainly, the Postmaster-General's proposal is equivalent to an assertion that the railways would make a fair profit if they were enabled to collect the sum of \$115,585,568 in addition to their operating expenses and taxes, but the figures given by the Interstate Commerce Commission

* The necessity for providing, out of income, for some kinds of improvements is commonly admitted. The public constantly demands greater comfort and convenience which can be supplied only by improvements in property and equipment that bring in no additional income. A present example in the mail service, itself, is the great expense which the railways are now undergoing in substituting steel mail cars for those formerly in use. The old cars, which thus become a total loss were fully up to the most advanced standards of construction when built and they could continue for a long time to serve the purposes of the service except for the public demand for stronger cars.

show that this would be less than one-third of the sum necessary to meet interest charges which must be paid in order to prevent foreclosures of mortgages and, if bond interest could be ignored, is much less than the rentals that must be paid if the existing systems are not to be broken up. And, of course, it would allow nothing whatever for legitimate demands upon income for dividends, permanent improvements or surplus.

It is unnecessary to dwell upon the consequences of such a theory of "compensation" to railroad credit and to the public interest in efficient transportation service, to say nothing of the consequences to owners of railroad stock and bonds. Such a theory is not a theory of compensation—it is a theory of oppression and of destruction.

The fact that the Postmaster-General has found it necessary to justify his attack upon the present basis of railway mail pay by a theory so unprecedented and so unwarranted in principle and in law, raises a strong presumption against all his opinions and conclusions upon this subject.

IV. THE MAIL SERVICE SUPPLIED BY THE RAILWAYS COSTS THEM MORE IN OPERATING EXPENSES AND TAXES THAN THEY ARE PAID FOR IT, AND LEAVES NOTHING FOR RETURN ON THE PROPERTY.

It cannot be too strongly emphasized that the railway mail pay at present is insufficient to pay even its proper share of operating cost and taxes and does not produce any return upon the property. This will be demonstrated by any fair inquiry, as will now be shown. Reports submitted to the Postmaster-General by railways operating 2,411 mail routes, with a total length of 178,710 miles, showed that their gross receipts, per car-foot mile*, from services rendered on passenger trains during November, 1909, were as follows:

From mail	3.23 mills
From other services.....	4.35 mills

Thus it appears that the space on passenger trains required for the mails is proportionately less than three-quarters as productive as that devoted to passengers, express, milk, excess baggage, etc., etc. As it is the general belief of railway managers, whose conclusion in this respect has rarely if ever been challenged, that the passenger train services, as a whole, do not produce revenues sufficient to meet their fair proportion of the operating costs and the necessary return upon investment, and

* A car-foot mile is a unit equal to moving one foot in car length (regardless of width or height) one mile. Thus to move a car sixty feet long one mile results in sixty car-foot miles; to move the same car three miles results in 180 car-foot miles, etc.

therefore are not reasonably compensatory, it is evident that the mail service, the pay for which is more than twenty-five per cent. below the average for the other services rendered on the same trains, must bring in much less than reasonable compensation. Certainly railroad revenues as a whole could not be reduced twenty-five per cent. without destroying all return upon the property. If so, it must be true that there can be no compensation in a rate of mail pay that is twenty-five per cent. less than the rate of pay for passenger traffic which, as above shown, is relatively unprofitable.

No merely statistical comparison can, however, reveal the whole story for the railways are required to furnish many incidental facilities and to perform many additional services for the Post Office Department, which render the mail service exceptionally arduous and costly. These extra services include calling for and delivering mails at a large proportion of the post offices located at railway towns; supplying rooms, with light, heat and water, in railway stations for the use of the mail clerks; placing cars, duly lighted and heated, on station tracks for advance distribution, often many hours before the departure of trains; carrying officers and agents of the Post Office Department as passengers but without compensation to the extent of more than 50,000,000 passenger miles annually (this being, of course, in addition to the railway mail clerks on duty), etc., etc. Extracts from the "Postal Laws and Regulations" defining and demanding these services are given in Appendix A. No one can examine this appendix and not be convinced that the mail service is the most exacting among all those rendered by American railways.

The fairness of railway mail pay can also be tested by apportioning operating expenses between passenger and freight traffic, and then making a secondary apportionment of the passenger expenses between mail and other kinds of traffic carried on passenger trains. This method involves charging directly to each kind of traffic all expenses pertaining exclusively thereto, and the apportionment, on some fair basis, of those expenses which are common to more than one kind of traffic.

In accordance with the request of the Postmaster-General, the railways estimated the cost of conducting the mail service in the manner just explained and reported the results to the Postmaster-General. After first charging to each service the expenses wholly due to it they apportioned the common expenses between the passenger and freight services, following (with inconsequential exceptions) the method most generally employed for that purpose, namely the apportionment of these expenses in the proportions of the revenue train mileage of each service. Having estimated, in this way, the operating expenses attributable to passenger trains, the railways assigned to the mails the portion of this aggregate indicated by the proportion of the total passenger train space required

for the mails. Using this method, 186 railways, operating 2,370 mail routes, with a total length of 176,716 miles, ascertained and reported that for November, 1909, the operating expenses (not including taxes), for conducting the mail service were \$4,009,184. The Postmaster-General states (Document No. 105, page 281), that all the railways represented in the foregoing, and enough others to increase the mileage represented to 194,978 miles, were paid for the same month only \$3,607,773.13. It thus appears that the pay was far below the operating expenses, without making any allowance for taxes or for a return upon the fair value of the property employed.

While different methods are in use for ascertaining the cost of passenger train service and the results produced by such methods may show considerable variation, yet the mail pay is so far below reasonable compensation, from the standpoint of the cost of the service and a return upon the value of the property, that no method can be reasonably urged which would not demonstrate the non-compensatory character of the present mail pay. This is illustrated by the method which the Postmaster-General himself employed, as the character of that method is such that it necessarily produces the very lowest estimate of cost for the passenger train service.

The Postmaster-General, by his method of apportionment arrived at a cost of.....	\$2,676,503.75
But this must be increased (as will be shown below, on account of his erroneous apportionment of car space (page 10), by....	800,802.00
And also on account of his refusal to assign expenses directly incurred in the mail service (page 12).....	401,126.00*
Total, according to the Postmaster-General's method of apportioning costs between passenger and freight traffic.....	\$3,878,431.75

Thus even the Postmaster-General's method of apportioning costs between freight and passenger traffic produces an operating cost in excess of the total pay received by the railways, leaving nothing whatever for return upon the fair value of the property or necessary but non-income producing improvements.

There is no allowance, in any of these estimates of cost, for the large volume of free transportation supplied to officers and agents of the Post Office Department, when not in charge of mail, although this amounts to

* There may be some duplication in this item, but to eliminate it would require an elaborate computation which, in view of the broad margin of expenses over receipts, is wholly superfluous. Whatever duplication exists must be small in comparison with this margin.

over 50,000,000 passenger miles annually and, at the low average rate of two cents per mile, would cost the Post Office Department more than \$1,000,000 per year.

Moreover, as will presently be shown (pages 13-14) all the figures here discussed are for the month of November, a month which, because of the abnormally low ratio of passenger traffic to freight traffic, substantially understates the cost of the passenger train services, when figures derived from it are applied to an entire year.

It thus becomes evident that any inquiry which takes into consideration the necessary elements of the situation will demonstrate that railway mail pay is too low. It is only by ignoring essential elements of the service and of expense and the fundamental element of a return on the value of the property that any argument to the contrary can be constructed.

Thus the mail traffic does not pay its operating cost. That traffic is a substantial percentage of the total public service performed by the railroads. It should contribute a substantial proportion to the taxes which the railroads have to pay and to the return on railroad property which its owners are entitled to receive. Clearly no fair method can be devised which will fail to show that the existing mail pay is far below a fairly compensatory basis. Certainly this condition ought not to be intensified by adding the injustice of still further reductions. On the contrary, the unjust reductions of recent years should be corrected for the future, and the railroads should be relieved from the strikingly unjust methods by which they are at present deprived of anything approaching fair compensation.

V. THE POSTMASTER-GENERAL'S APPORTIONMENT OF SPACE BETWEEN THE MAIL SERVICE AND THE OTHER SERVICES RENDERED ON PASSENGER TRAINS DID NOT ALLOW TO THE MAILS THE SPACE WHICH THEY ACTUALLY REQUIRE AND USE AND THIS HAD THE RESULT OF UNDULY REDUCING HIS ESTIMATES OF THE COST TO THE RAILWAYS OF THE MAIL SERVICE.

Detailed reference will now be made to the methods and controlling effect of the Postmaster-General's apportionment of passenger train space between the mails and the other services rendered on passenger trains. Such an apportionment was a necessary step in the calculations reported in Document No. 105. Having obtained certain estimates of the cost of the passenger train services, considered together, by methods, producing the lowest results, the next step shown in Document No. 105 was to apportion a part of this cost to the mail service. The accepted method for such an apportionment is to distribute the total cost in proportion to the train space required by each of the respective services. The Postmaster-General obtained from the railways statements which

he might have used in applying this method and these statements showed that 9.32 per cent. of the total space in passenger trains was required by the mails, but, instead of using the data showing this fact, he substituted figures of his own which reduced the space credited to the mail service to 7.16 per cent. of the total. The total of passenger train costs which the Postmaster-General estimated should be apportioned among passengers, express and mail, on the basis of space occupied, was \$37,074,172.* He therefore assigned to the mail service 7.16 per cent. of the last-named sum or \$2,654,510.69. If, however, he had used the proportion of space, 9.32 per cent., resulting from the reports he had obtained from the railways, the amount apportioned as cost of the mail service for the month would have been \$800,802 greater. Multiplying this by twelve gives an increase in the estimated annual cost of over \$9,600,000.

Thus the Postmaster-General arrived at his declaration that the railways were getting an excess profit of \$9,000,000 by means of two fundamental errors, omitting for the present reference to any other errors. He understated the annual mail expenses and taxes of the railways by at least \$9,600,000, and he ignored entirely the necessary return on the value of railroad property.

This examination of his methods shows that the determination of space was of primary and controlling importance and that the changes in space allotment have destroyed the value of his deductions. These changes were due to his refusal to assign to the mail service the working space and temporarily unoccupied space on trains, which were necessary to the mail service and to his actually assigning much of this space to the passenger service rendered on the same trains.

It is scarcely necessary to note that all kinds of traffic require "working space" in addition to the space actually occupied by the traffic itself, and that this is especially true of the mail traffic, or that where there is a preponderating movement of a certain traffic in one direction there must be some empty space on account of that traffic, sometimes called "dead" space, in trains moving in the direction of lighter traffic. Thus passenger cars must have aisles, vestibules and platforms, and postal cars must have a great deal of space in which to sort the mails while, for mail carried in baggage cars, there must be space in which to reach the pouches and to receive and deliver them through the doors. A through train must also have the full capacity required for the max-

*This is the sum which was apportioned by the Postmaster General on the basis of train space occupied. He estimated \$40,121,294.83 (Document No. 105, page 280) as the total operating expenses and taxes of the passenger train services for the month. Of this total \$21,993.06 was charged directly to the mails and \$3,025,129.77 directly to the other passenger train services, leaving the sum stated in the text to be apportioned on the space basis.

imum traffic of any kind likely to seek accommodation on any part of its journey, although during much of each trip the actual traffic may be considerably below this limit. The Postmaster-General, however, refused to credit the mail service with much of the space thus required by the Department although his figures for the other passenger train services allowed fully for all such space required by them. In fact in many cases such space, actually required by the mails and so reported by the railways, was taken from the total mail space and, without reason, assigned to the passenger service. These modifications of the data correctly reported, not susceptible of justification upon any sound transportation principle, were carried so far that the tabulations of the Post Office Department, which are stated for railway mail routes having a total length of 194,977.55 miles* show only 926,164,459 "car-foot miles" made in the mail service, although certain railways, included therein, and having railway mail routes aggregating only 178,709.96 miles, had correctly reported mail space equivalent to 1,153,110,245 "car-foot miles." Thus, although the Department's figures cover 8.3 per cent more mileage, its reductions of space resulted in assigning to this greater mileage about one-quarter (24.5 per cent.) less mail space. At the same time the Department actually increased the space assigned to the other passenger train services, its figures showing 12,014,065,506 car-foot miles in these services for 194,977.55 miles of mail routes which must be compared with 11,222,478,739 car-foot miles reported by the railways for 178,709.96 mail-route miles.

This treatment of the controlling figures as to space, supplementing the other errors of method and omissions of fact, which have been or will be cited, was amply sufficient to turn a real loss into an apparent profit.

VI. THE POSTMASTER - GENERAL IGNORED DATA WHICH HE HAD OBTAINED SHOWING EXPENDITURES ON ACCOUNT OF THE MAILS LARGELY IN EXCESS OF THE DIRECT EXPENSES FOR THAT SERVICE WHICH HE REPORTED.

As a part of the investigation reported in Document No. 105 the Postmaster-General obtained from the railways statements showing the amounts expended by them for the station and terminal services required by his Department and the amount of free transportation furnished on his requisition for officers and agents of the postal service when not in charge of mail. These data were not used (Document No. 105, p. 6) and, as no adequate allowance was made in any other way for these expenses, the omission unjustly reduced the estimates of the cost to the

* Document No. 105, p. 53.

railways of their postal services. The Postmaster-General's explanation of this omission implies that it was partially offset by the assignment as cost of mail service of its proportion, on the space basis, of all the station and terminal expenses of the passenger train services but these special mail expenses are disproportionately heavy and the amount so assigned was far too low. The expenses for station and terminal services especially incurred for the mails, during November, 1909, and reported to the Postmaster-General, for ninety-two per cent. of the mileage covered by Document No. 105 aggregated \$401,136.00, as follows:

Amount of wages paid to messengers and porters employed exclusively in handling mails.....	\$79,980.84
Portion properly chargeable to mail service, pro- rated on basis of actual time employed, of wages paid to station employees a part of whose time is employed in handling mails	198,927.01
Amount expended for maintenance of horses and wagons and for ferriage, etc., in connection with mail service	5,640.98
Rental value, plus average monthly cost of light and heat, of room or rooms set apart for the ex- clusive use of the mail service.....	37,258.93
Rental value of tracks occupied daily for advance distribution of the mail.....	47,029.12
Average monthly cost of light and heat for postal cars placed daily for advance distribution of mail	18,400.57
Interest at the legal rate upon the value of cranes, catchers and trucks required for mail service....	3,895.36
Total	\$401,126.00*

All the foregoing data were reported to the Postmaster-General in response to his request but he made no use of these items, an omission manifestly to the serious disadvantage of the railways and having the effect of unduly reducing his estimates of the cost of the mail service.

Similarly, the Postmaster-General omitted to use the data he had obtained from the railways showing the volume of free passenger transportation, already referred to, supplied to the officers and agents of the Post Office Department and his estimates contain no recognition of the cost of this service although its extent should be a matter of record in the Department as it is furnished only on its requisition. The space

* This total includes \$9,993.19 reported by four companies which gave totals for these items, but did not report the items separately.

in passenger coaches occupied by these representatives of the Post Office Department, traveling free, was not assigned to the mail service but was treated as passenger space.

VII. THE MONTH OF NOVEMBER IS NOT A FAIR AVERAGE MONTH IN ANY RAILWAY YEAR OR ONE THAT IS TYPICAL OF A YEAR'S BUSINESS AND ITS USE AS THE SOLE BASIS OF THE POSTMASTER-GENERAL'S CALCULATIONS WAS SO UNFAVORABLE TO THE RAILWAYS AS TO DEPRIVE THE RESULTS OF ANY VALUE EVEN IF IN ALL OTHER RESPECTS HIS METHODS WERE BEYOND CRITICISM.

All the Postmaster-General's calculations, reported in Document No. 105, and by him relied upon therein, and elsewhere, to substantiate his attack upon existing railway mail pay, depend solely upon data for the single month of November, in the year 1909. It is obvious, therefore, that the validity of his conclusions, if all the rest of his processes were accurate and his deductions otherwise sound, would depend upon whether November is sufficiently typical of the railway year to be safely used as the sole basis for conclusions applicable to a whole year. The truth is, however, that November is not a typical or average month and that all of its deviations from the averages of the year are such as greatly to favor the result which the Postmaster-General was seeking.

It may well be doubted whether the railway year contains any month that can properly be regarded as typical of the whole period but if it does, the month of November, with four Sundays, two holidays and only twenty-four working days, is certainly not such a month. The Interstate Commerce Commission publishes the monthly aggregates of railway receipts and these official data conclusively prove that November, 1909, was the one month for which the data were most strongly favorable to finding, by the Postmaster-General's method, an abnormally low apparent cost for the passenger train services and, consequently, for the mail service.

It is a month in which substantially Winter conditions prevail in a large part of the country and, on this account, one during which much of the ordinary work of maintenance of way and structures must be suspended. Such work occasions a large fraction of the yearly expenses of all railways and these expenses pertain in a relatively large proportion to the passenger services because the higher speed of passenger trains results in greater relative wear and tear upon road-bed and structures than that caused by the slower trains of the freight service and the requirements of safety to passengers carried at high speed impose more costly standards of maintenance than would otherwise be necessary. Consequently

a month in which these maintenance expenses are necessarily below the yearly average cannot typify the full annual cost of the passenger train services. Figures showing the facts are contained in Appendix B.

It is, of course, understood that the respective expenses of the passenger and freight services must move upward and downward with the fluctuations in the volume of each sort of traffic. No month can furnish a reliable basis for estimating the proportion of the total expenses that is caused by the passenger service unless during that month the volume of passenger traffic bears a normal relation to the volume of freight traffic. But in November, 1909, as will appear from official figures for each month in the year contained in Appendix C, passenger traffic, as measured by receipts therefrom, was much below the average month of the year while freight traffic was far above the average. The November receipts from passengers amounted to only 21.5 per cent. of total receipts, the lowest relation shown for any month in the year. Of course, under these conditions passenger expenses were curtailed and freight expenses relatively enhanced. Certainly the use of data resulting from these abnormal relations could not possibly produce results fairly typical of a normal period, that is of a whole year. The results so obtained must have diminished the apparent cost of the passenger train services below the true cost, by just as much as the figures for November were below the average figures of the year.

These considerations fully establish the truth that, if every other feature of Document No. 105 were absolutely beyond criticism, the fact that it rests wholly upon estimates based upon data for the single month of November would render its conclusions illusory, misleading and seriously prejudicial to the railways.

VIII. A COMMISSION OF SENATORS AND MEMBERS OF CONGRESS WHICH, BETWEEN 1898 AND 1901, MOST FULLY AND CAREFULLY INVESTIGATED THE SUBJECT, ASCERTAINED AND DECLARED THAT RAILWAY MAIL PAY WAS NOT THEN EXCESSIVE; SINCE THEN THERE HAVE BEEN MANY AND EXTENSIVE REDUCTIONS IN PAY ACCOMPANIED BY SUBSTANTIAL INCREASES IN THE COST AND VALUE OF THE SERVICES RENDERED BY THE RAILWAYS.

The Congressional Joint Commission to Investigate the Postal Service, which reported on January 14, 1901, is authority for the fact that, at that time, railway mail pay was not excessive. Senator William B. Allison, of Iowa; Senator Edward S. Wolcott, of Colorado; Senator Thomas S. Martin, of Virginia; Representative Eugene F. Loud, of California; Representative W. H. Moody, of Massachusetts, and Represen-

tative T. C. Catchings, of Mississippi, six of the eight members of the Commission, then united in the following:

"Upon a careful consideration of all the evidence and the statements and arguments submitted, and in view of all the services rendered by the railways, we are of the opinion that 'the prices now paid to the railroad companies for the transportation of the mails' are not excessive, and recommend that no reduction thereof be made at this time." Fifty-second Congress, Second Session, Senate Document No. 89, pp. 19, 22, 25, 29.

Since the Commission reported, the volume of the American mails, the revenue of the American postal service and its demands upon the railways for services and facilities have greatly increased. The costs of supplying railway transportation have also greatly increased. The necessary cost of railway property per unit of service has increased, and in consequence the amount required as a reasonable return thereon, on account of higher wages and prices, the higher standards of service demanded and the higher value of the real estate required for extended and necessary terminal plants. Operating expenses have grown by reason of repeated advances in rates of wages paid to employees of every grade and increased prices of materials and supplies. Taxes have increased with the rapidly augmenting exactions of State and local governments and the imposition of an entirely new Federal corporation tax.* Yet during this period of rapidly advancing railway expenses, and in spite of the fact that at its commencement the railway mail pay was not excessive, the rates of payment for railway mail services have been subjected to repeated and drastic decreases accomplished both by legislative action and by administrative orders. These reductions have so much more than offset the rather doubtful advantages which the railways might be assumed to have obtained from the increased volume of mail traffic that in 1912 they find their mail service more unprofitable than ever before. The following table shows the facts:

Fiscal Year	Total railway mail pay	Average railway mail pay per \$100.00 of postal receipts.
1901	\$38,158,969	\$34.18
1904	43,971,848	30.62
1907	49,758,071	27.10
1910	49,405,311	22.04
1911	50,583,123	21.26

* Data indicating some of the increases in wages and taxes are given in Appendices D and E.

The foregoing shows that the Post Office Department expended for railway transportation, in 1901, \$34.18 in order to earn \$100.00 in gross and that by 1911 this expenditure had been reduced 37.8 per cent. to \$21.26.

This notable reduction was the consequence (first) of the operation of the law fixing mail pay under which the average payment per unit of service decreases as the volume of mail increases; (second) of the Acts of Congress of March 2, 1907, and May 12, 1910, and (third) of administrative changes effected by the Post Office Department which, without decreasing the services required of the railways or enabling those services to be rendered at any lower cost, greatly reduced the payment therefor. Chief among these administrative changes was the Postmaster-General's order known as the "Divisor" order (No. 412 of June 7, 1907, superseding Order No. 165 of March 2, 1907) radically lowering the basis for calculating the annual payments for transportation. No official estimate of the reduction in the aggregate annual payment produced by the operation of the law fixing the scheme of payment has been made but from time to time the Department has published estimates of the reductions otherwise effected. None of these estimates is now up to date, and to make them comparable with the present volume of mail substantial increases would be necessary, but they are given below as representing an amount substantially less than the lowest possible statement of the total present annual reduction.

Cause of reduction	Amount of annual reduction.
Natural operation of the law.....	No estimate.
Acts of March 2, 1907, and May 12, 1910.....	\$2,723,658.90
Withdrawal of pay for special facilities.....	167,005.00
Postmaster-General's divisor order.....	4,941,940.34
Other administrative changes.....	699,544.51
<hr/>	
Total (with no allowance for the first item above)	\$8,532,148.75

No one will contend for a moment that there has been any net reduction in the cost of supplying railway mail services and facilities since 1901, the year in which the report of the Joint Commission to Investigate the Postal Service was made. In fact, all changes in railway operating costs, except those due to increased efficiency of organization and management, which can have little if any effect in connection with mail traffic, have been in the opposite direction. During the years characterized by these reductions the railways have been called upon continually to improve the character of their postal service and the Post Office Department will not deny that the railways are now rendering better, more frequent, and more expeditious postal service than in 1901, or

any intermediate year, and are doing so at greatly increased cost to themselves.

In view of these thoroughly substantiated facts the drastic reductions of recent years afford unanswerable proof that railway mail pay is now too low.

IX. THE ADMINISTRATION OF THE POST OFFICE DEPARTMENT HAS NOT, IN THE LAST TWELVE YEARS, EFFECTED ANY REDUCTION IN THE ANNUAL TOTAL OF ITS EXPENSES FOR OTHER PURPOSES THAN RAILWAY TRANSPORTATION OR IN THE PROPORTION OF ITS REVENUES REQUIRED FOR SUCH OTHER EXPENSES, BUT THE WHOLE SAVING WHICH HAS NEARLY ELIMINATED THE ANNUAL DEFICIT OF THE DEPARTMENT IS REPRESENTED BY THE REDUCED PAYMENTS, PER UNIT OF SERVICE, TO THE RAILWAYS.

That the recent savings of the postal service have been wholly at the expense of the railways is shown by the following:

	1901.	1911.
Postal gross receipts.....	\$111,631,193	\$237,879,823
Postal expenses, all purposes;		
Total	\$115,554,921	\$238,507,669
Per cent. of gross receipts....	103.5	100.3
Railway mail pay;		
Total	\$38,158,969	\$50,583,123
Per cent. of gross receipts....	34.2	21.3
Postal expenses other than rail-		
way mail pay;		
Total	\$77,395,952	\$187,924,546
Per cent. of gross receipts....	69.3	79.0

This table shows that in the ten years from 1901 to 1911 the Post Office Department reduced its operating ratio between its total expenses and its gross receipts from 103.5 per cent. to 100.3 per cent., being a reduction of 3.2 points; but it also shows that this improvement was due solely to the fact that the ratio of railway mail pay expenses to gross receipts was reduced from 34.2 per cent. to 21.3 per cent., a reduction of 12.9 points, while the ratio of all other expenses to gross receipts increased from 69.3 per cent. to 79 per cent., an increase of 9.7 points. Thus the improvement of 3.2 points in the ratio for all expenses was due entirely to the greatly reduced ratio of railway mail pay, the heavy reduction in that respect exceeding by 3.2 points the very substantial increase in the ratio of all other expenses.

During the ten years from 1901 to 1911 the Department took up an enormous increase in business at a greatly decreased cost for railway transportation and at a largely increased cost for other purposes. It cost the Department, for purposes other than railway transportation, nearly nine-tenths of \$126,248,630 to add that amount to its gross receipts (although for these other purposes it had previously spent less than seven-tenths of its gross receipts) while it required less than one-tenth of the same sum to pay for the added railway transportation that the new business required (although at the beginning of the period railway transportation had cost more than one-third of the gross receipts). This startling comparison fully warrants the conclusion that the power of Congress and the Department has been exercised to force upon the railways, by reducing the payments for their services, the burden not only of the effort to eliminate the annual postal deficit but of considerable increases in other forms of postal expenditure. No reference to rural free delivery will serve to explain away the conclusion suggested by this comparison especially since only a fraction of the cost of that service represents really an additional net outlay. This service has permitted a reduction of one-third in the number of post offices and has been in many cases substituted for star route service and the savings thus permitted ought to be credited to it before determining its cost.

That increases in postal expenditures were necessary, between 1901 and 1911, is not denied. The period was one in which steady and extensive increases in the cost of living made necessary considerable increases in the salaries of postal employees and in the cost of postal supplies, precisely as the railways were impelled to increase the salaries and wages of their employees and were obliged to pay higher prices for their supplies. In other words, the purchasing power of the American dollar, and of standard money everywhere, greatly decreased and this decrease affected the Post Office Department as it has affected every business undertaking. But the purchasing power of the railway dollar decreased exactly as that of all other dollars and it was unreasonable and unjust that while this change was in progress, the losses which it entailed in the postal service of the Government should be shifted, as it has been shown that they were, to the railways which were, at the same time, suffering far greater losses from the same cause.

X. THE CONTINUOUS REFUSAL OF THE POST OFFICE DEPARTMENT TO ORDER REWEIGHINGS OF THE MAILS EXCEPT AFTER THE MAXIMUM INTERVAL OF FOUR YEARS WHICH THE LAW ALLOWS, THE DEMANDS FOR STATION AND TERMINAL SERVICES THAT ARE RENDERED WITHOUT ANY OR WITHOUT ADEQUATE COMPENSATION AND THE UNJUST DISCRIMINATION AGAINST COMPART-

MENT CARS USED AS RAILWAY POST OFFICES ARE ALL ABUSES, SERIOUSLY INJURIOUS TO THE RAILWAYS, WHICH HAVE GROWN UP UNDER THE PRESENT SYSTEM OF PAY-MENT AND OUGHT AT ONCE TO BE REMEDIED.

In addition to the inadequacies in the rates of pay provided under the present law, which result in payments that do not leave any balance for taxes or return upon property and indeed do not even meet operating expenses, there are certain conditions which have grown up in the application of the existing basis of pay that ought to be rectified. This is especially necessary in view of the tendency, herein shown, of the Post Office Department to apply the system so as to reduce its expense for railway transportation, and to look to this item as the chief or sole source of economies.

The transportation pay received for each railway route is determined, under the practice of the Department, for a period of four years on the basis of the average daily weight carried during a period of about three months duration prior to the beginning of the period for which it is fixed. Thus, by the terms of the law, the Government upholds the principle that weight should be the basis of payment but, by an inconsistent practice, denies that principle and creates a condition under which it is practically certain that the weight actually carried will differ materially from the weight paid for. Congress, surely, never intended this result for the provision of law is, merely, that the mail shall be weighed "not less frequently" than once in four years and clearly implies an intention that it should be weighed whenever a substantial change in volume has taken place. But the Post Office Department controls, subject to the provision of law, the frequency of the weighings, and naturally seeks those reductions in its expenses which can be effected without loss anywhere except in railway revenues. Consequently, it long ago ceased to order new weighings, except when compelled to do so by the expiration of the statutory limit. It thus happens that while the railways are paid on the basis of a certain average daily weight they are frequently carrying a much greater weight and with no compensation whatever for the increase in the weight. In other instances the change is in the opposite direction but with increasing national population and wealth it is obvious that most of these changes must be to the injury of the railways. However, the element of uncertainty thus introduced into each contract is unbusinesslike and in fairness to both parties ought to be removed. No railway would make a four years' contract to carry, for a definite sum, the unlimited output of any manufacturing plant and if it attempted to do so the contract would be void under the Interstate Commerce law. The terms of the mail contracts are substantially

dictated by the Postmaster-General and by Congress and the latter ought, in justice both to the railways and to the Government, to require the former to make annual weighings in order that the scheme of payment provided in the law may be fairly and accurately applied.

Railways are required to transfer the mails between their stations and all post offices not more than a quarter of a mile distant from the former and, at the election of the Post Office Department, to make similar transfers at terminals. For the former no compensation is accorded, and for the latter the allowances are inadequate. There are numerous instances in which these extra services require expenditures, on the part of the railways concerned, that exceed the total compensation of the mail routes on which they occur. The extent of these requirements in particular cases is largely subject to the will of the Department and this produces unreasonable uncertainties as to what may be demanded during the life of any contract. The basis of payment plainly does not contemplate such services, they are a survival from the period when the mails were carried by stage-coaches, which could readily deviate these distances from their ordinary routes, and it is clear that the Government ought to perform these services itself or reasonably compensate the railways therefor.

Much of the mail moved by the railways is carried in cars especially equipped as traveling post offices in order that it may be accompanied by postal clerks who perform, on the journey, precisely the labor which they would otherwise perform in local post offices. Cars so used can be but lightly loaded and are costly to supply, to equip, to maintain and to move. Their use has greatly increased the efficiency of the postal service and vastly expedited the handling of the mails. In the infancy of this service Congress provided for additional payments for the full cars so required, but when the practice of requiring portions of cars for the same identical purpose was inaugurated no provision for paying for them was made and this condition never has been corrected. Even in Document No. 105, the injustice of this situation is recognized (page 3) and the Postmaster-General asserts that it is a purely arbitrary discrimination and without logical basis. Obviously a reasonable allowance for apartment cars ought to be made.

XI. THE POSTMASTER-GENERAL'S PROPOSED PLAN OF PAYMENT BASED UPON OPERATING COST AND TAXES, TO BE ASCERTAINED BY THE POST OFFICE DEPARTMENT, PLUS SIX PER CENT. IS SERIOUSLY WRONG IN PRINCIPLE AND WOULD ENCOURAGE AND PERPETUATE INJUSTICE.

The foregoing discussion makes plain the error and injustice in the Postmaster-General's proposal to pay the railways for carrying the mail

upon the basis of returning to them the operating expenses and taxes, as ascertained by the Post Office Department, attributable to the carriage of the mails, plus six per cent. of the sum of these expenses and taxes.

The discussion under heading III above demonstrates that the plan leaves out of consideration any allowance for return upon the property and would be destructive of the universally recognized rights of the railroad companies.

Furthermore, such a plan is fundamentally erroneous because it involves paying the highest rates to the railroad that by reason of physical disabilities or inefficient methods is most expensively operated and the lowest rates to the railroad which, by reason of the highest efficiency, operates at the lowest cost. A railroad's superior operating efficiency is frequently due to exceptionally heavy capital expenditures to obtain low grades, two, three or four main tracks, and to improve in other respects the roadbed and tracks to the end that trains may be hauled at the lowest expense. Such a railroad needs, and is entitled to sufficient net earnings to enable it to pay a proper return upon the increased value which is due to such expenditures. But under the Postmaster-General's plan, a railroad would be penalized for all the capital expenditures made by it for the purpose of decreasing its operating cost, because the more it decreased its operating cost the more it would decrease its mail pay.

The ascertainment of the cost to a railroad of conducting mail service is necessarily very largely a matter of judgment and opinion, because a large proportion of the total operating expenses are common to the freight and passenger traffic and can only be approximately apportioned. There is room for a very wide discretion in the making of such apportionments. It would not be right or proper to entrust the Post Office Department with the discretion of making such apportionment, because the Post Office Department has an obvious interest at stake, its object always being to reduce the railroad pay to a minimum.

The last preceding statement is fully justified by the facts disclosed by the foregoing pages, which show how consistently the Post Office Department has relied upon reductions in railway mail pay as the ever available source of desired curtailments of expenses and how unsuccessfully the railways have resisted this persistent pressure. They show that successive Postmasters-General have taken advantage of every legal possibility, such as taking the longest time between mail weighings which the law permits and the strained interpretation of the statute fixing the basis of payment (page 19), in order to effect reductions

in railway mail pay. Consequently, the facts point irresistibly to one conclusion, namely, that the Post Office Department is a bureaucratic entity with an interest in the reduction of the amounts paid to the railways that is incompatible with an impartial ascertainment of what is fair compensation. This interest, coupled with the brief tenure of the responsible officers of the Department, must always incline the latter to support insufficient standards of mail pay and prevent their recognizing the ultimate necessity of paying fairly for efficient service. It would, therefore, be clearly inexpedient and strikingly unjust to place railway mail revenues wholly at the mercy of the Department by enacting a law which would authorize each Postmaster-General to fix railway mail pay on the basis of his own inquiries and opinions in a field in which so much must be left to estimate and approximation as that of the relative or actual cost of the different kinds of railway service.

It is conceded that every railway mail contract is between the Government, which is the sovereign, and a citizen, and that the nature and terms of the contract are always substantially to be dictated by the former. But this very condition invokes the principle of primary justice, that the sovereign shall take care to exercise its power without oppression. To this end the determination of the terms on which the Post Office Department may have the essential services of the railways ought to be reserved, as at least partially in the past, to the Congress, or, if delegated at all, they should be entrusted to some bureau or agency of Government not directly and immediately interested in reducing railway mail pay below a just and reasonable compensation.

APPENDIX A.

EXTRACTS FROM THE POSTAL LAWS AND REGULATIONS.

"Railroad companies, at stations where transfer clerks are employed, will provide suitable and sufficient rooms for handling and storing the mails, and without specific charge therefor. These rooms will be lighted, heated, furnished, supplied with ice water, and kept in order by the railroad company." Section 1186, second paragraph.

"The specific requirements of the service as to . . . space required . . . at stations, fixtures, furniture, etc., will at all times be determined by the Post Office Department and made known through the General Superintendent of Railway Mail Service." Section 1186, third paragraph.

"Railroad companies will require their employees who handle the mails to keep a record of all pouches due to be received or dispatched by them, and to check the pouches at the time they are received or dispatched, except that no record need be kept of a single pouch from a train or station to the post office or from the post office to a train or station which, in regular course, is the only pouch in the custody of the company's employees at that point while it is being handled by them. This is not to be construed as relieving railroad companies from having employees on trains keep and properly check a record of all closed pouches handled by them, without exception." Section 1187, first paragraph.

"In case of failure to receive any pouch due, a shortage slip should be made out, explaining cause of failure, and forwarded in lieu of the missing pouch. Specific instructions in regard to the use of shortage slips will be given by the General Superintendent of Railway Mail Service." Section 1187, second paragraph.

"Every irregularity in the receipt and dispatch of mail should be reported by the employee to his superintendent promptly, and if a probable loss of or damage to mail is involved, or if the cause of failure to receive a pouch is not known, the report should be made by wire, and the superintendent will notify the division superintendent of Railway Mail Service without delay. A copy of the employee's report should be attached to and become a part of the permanent pouch record." Section 1187, third paragraph.

"Train pouch records will be kept on file at the headquarters of division superintendents of railroad companies for at least one year immediately following the date the mail covered by them was handled, and shall be accessible there to post office inspectors and other agents of the Post Office Department. Station pouch records will be kept on file at the station to which they apply for at least one year immediately following the date the mail covered by them was handled, and shall be accessible there to post office inspectors and other agents of the Post Office Department." Section 1187, fourth paragraph.

"Railroad companies will require their employees to submit pouch records for examination to post office inspectors and other duly accredited agents of the Post Office Department upon their request and exhibition of credentials to such employees." Section 1187, fifth paragraph.

"Every railroad company is required to take the mails from, and deliver them into, all terminal post offices, whatever may be the distance between the station and post office, except in cities where other provision for such service is made by the Post Office Department. In all cases where the Department has not made other provision, the distance between terminal post office and nearest station is computed in, and paid for, as part of the route." Section 1191, first paragraph.

"The railroad company must also take the mails from and deliver them into all intermediate post offices and postal stations located not more than eighty rods from the nearest railroad station at which the company has an agent or other representative employed, and the company shall not be relieved of such duty on account of the discontinuance of an agency without thirty days' notice to the Department." Section 1191, second paragraph.

"At connecting points where railroad stations are not over eighty rods apart a company having mails on its train to be forwarded by the connecting train will be required to transfer such mails and deliver them into the connecting train, or, if the connection is not immediate, to deliver them to the agent of the company to be properly dispatched by the trains of said company." Section 1192.

"At places where railroad companies are required to take the mails from and deliver them into post offices or postal stations or to transfer them to connecting railroads, the persons employed to perform such service are agents of the companies and not employees of the postal service, and need not be sworn; but such persons must be more than sixteen years old and of suitable intelligence and character. Postmasters will promptly report any violation of this requirement." Section 1193.

"Where it is desirable to have mails taken from the post office or postal station to train at a terminal point where the terminal service devolves upon the company, in advance of the regular time of closing mails, the company will be required to make such advance delivery as becomes necessary by the requirements of the service." Section 1194.

"When a messenger employed by the Post Office Department cannot wait for a delayed train without missing other mails the railroad company will be required to take charge of and dispatch the mails for the delayed train, and will be responsible for the inward mail until delivered to the messenger or other authorized representative of the Department." Section 1195.

"Whenever the mail on any railroad route arrives at a late hour of the night the railroad company must retain custody thereof by placing the same in a secure and safe room or apartment of the depot or station until the following morning, when it must be delivered at the post office, or to the mail messenger employed by the Post Office Department, at as early an hour as the necessities of the post office may require." Section 1196.

"When a train departs from a railroad station in the night time later than 9 o'clock, and it is deemed necessary to have the mail dispatched by such train, the division superintendent of Railway Mail Service will, where mail is taken from and delivered into the post office by the railroad company, request the company, or where a mail messenger or carrier is employed by the Post Office Department, will direct him, to take the mail to the railroad station at such time as will best serve the interest of the mail service. Such mail will be taken charge of by the agent or other representative of the railroad company, who will be required to keep it in some secure place until the train arrives, and then see that it is properly dispatched." Section 1197, first paragraph.

"The division superintendent of Railway Mail Service will give reasonable advance notice to the proper officer of the railroad company, in order that the agent or representatives of the company may be properly instructed." Section 1197, second paragraph.

"Railroad companies will be expected to place their mail cars at points accessible to mail messengers or contractors for wagon service. If cars are not so placed the companies will be required to receive the mails from and deliver them to the messengers or contractors at points accessible to the wagon of the messenger or contractor." Section 1198.

"A mail train must not pull out and leave mails which are in process of being loaded on the car or which the conductor or trainman has information are being trucked from wagons or some part of the station to the cars." Section 1199.

"At all points at which trains do not stop where the Post Office Department deems the exchange of mails necessary, a device for the receipt and delivery of mails satisfactory to the Department must be erected and maintained; and pending the erection of such device the speed of trains must be slackened so as to permit the exchange to be made with safety." Section 1200, first paragraph.

"In all cases where the Department deems it necessary to the safe exchange of the mails the railroad company will be required to reduce the speed or stop the train." Section 1200, second paragraph.

"When night mails are caught from a crane the railroad company must furnish the lantern or light to be attached to the crane and keep the same in proper condition, regularly placed and lighted; but if the company has no agent or employee at such station, the company must furnish the light, and the care and placing of same will devolve upon the Department's carrier." Section 1200, third paragraph.

"The engineer of a train shall give timely notice, by whistle or other signal, of its approach to a mail crane." Section 1200, fourth paragraph.

"Railroad companies are required to convey upon any train, without specific charge therefor, all mail bags, post office blanks, stationery, supplies, and all duly accredited agents of the Post Office Department and post office Inspectors upon the exhibition of their credentials." Section 1184.

APPENDIX B.
CLASSIFICATION OF OPERATING EXPENSES.
 (Data from Reports of the Interstate Commerce Commission.)

Class.	Fiscal year 1910		November, 1909		Average cost per mile of line.	Monthly average for the other eleven months of the fiscal year.	Per cent. of monthly average for the fiscal year.	Per cent. of monthly average for the fiscal year.
	Amount	Monthly average	Amount	Per cent. of monthly average for the fiscal year.				
Maintenance of way and structures.....	\$1,562.88	\$130.24	\$124.04	95.24	\$130.80	100.43		
Maintenance of equipment.....	1,746.00	145.50	148.44	102.02	145.23	99.82		
220.61	18.38	18.85	102.51	18.34	18.34	99.78		
Traffic expenses.....	2,893.71	224.48	327.78	101.02	324.18	96.91		
287.71	23.98	23.10	96.33	24.06	24.06	100.33		
General expenses.....								
Total.....	\$7,710.91	\$642.58	\$642.21	99.94	\$342.61	100.00		

APPENDIX C.
RECEIPTS FROM PASSENGER AND FREIGHT TRAFFIC BY MONTHS.
 (Data from Reports of the Interstate Commerce Commission.)

Month	Passenger receipts per mile of line			Freight receipts per mile of line			Per cent. of passenger receipts to receipts from both passengers and freight
	Total	Daily Average	Per cent. of daily average for year	Total	Daily average	Per cent. of daily average for year	
1909, July	\$251.66	\$8.12	112.15	\$608.67	\$19.63	88.46	29.25
Aug.	269.70	8.70	120.17	653.97	21.10	95.09	29.20
Sept.	254.95	8.50	117.40	704.51	23.48	105.81	26.57
Oct.	231.80	7.48	103.31	781.91	25.22	113.65	22.87
Nov.	206.69	6.89	95.17	752.69	25.09	113.07	21.54
Dec.	211.55	6.82	94.20	640.59	20.66	93.11	24.83
1910, Jan.	187.42	6.05	83.56	618.06	19.94	89.86	23.27
Feb.	171.92	6.14	84.81	603.76	21.56	97.16	22.16
March	202.61	6.54	90.33	716.76	23.12	104.19	22.04
April	203.84	6.79	93.78	658.93	21.96	98.96	23.63
May	218.47	7.05	97.38	682.96	22.03	99.28	24.24
June	233.25	7.78	107.46	674.97	22.50	101.40	25.68
Average	\$220.32	\$7.24	\$100.00	\$674.81	\$22.19	100.00	24.61

APPENDIX D.

HOW RAILWAY WAGES HAVE INCREASED.

In the year 1901 the railways reporting to the Interstate Commerce Commission received, in gross from operating sources, the sum of \$1,588,526,037.00 and expended in wages and salaries the sum of \$610,713,701.00; in 1910 the corresponding totals were \$2,750,667,435.00 and \$1,143,725,306.00. Computations from these totals show that in 1901 the railways expended in wages and salaries \$38.45 out of each \$100.00 of gross operating receipts, while in 1910 the proportion had increased to \$41.58 a difference of \$3.13 in each \$100.00 of gross receipts. This difference does not seem small but it is hardly realized, except when the calculation is made, that on the basis of the gross receipts of 1910 it would amount, as it does, to an additional expense of \$86,095,890.72. It is to be borne in mind that this largely increased payment to labor is in spite of the fact that a part of the increase in wage rates has been offset by higher efficiency in method and facilities. Comparisons of rates of wages, from the annual statistical reports of the Interstate Commerce Commission, follow:

Class of Employees	Average wages per day		
	1901	1910	Increase, per cent.
General office clerks.....	\$2.19	\$2.45	11.87
Station agents	1.77	2.14	20.90
Other station men.....	1.59	1.91	20.13
Enginemen	3.78	4.34	14.81
Firemen	2.16	2.57	18.98
Conductors	3.17	3.73	17.67
Other trainmen	2.00	2.72	36.00
Machinists	2.32	3.03	30.60
Carpenters	2.06	2.39	16.02
Other shop men	1.75	2.20	25.71
Section foremen	1.71	1.99	16.37
Other trackmen	1.23	1.57	27.64
Telegraph operators and dispatchers.....	1.98	2.16	9.09
Employees, account floating equipment.....	1.97	2.10	6.60
All other employees and laborers.....	1.69	1.96	15.98

APPENDIX E.
HOW RAILWAY TAXES HAVE INCREASED.
 (Data from Reports of the Interstate Commerce Commission.)

Year	Amount paid	Average per mile operated	Per cent. of net receipts
1900	\$48,332,273	\$251.00	8.7
1901	50,944,372	260.50	8.6
1902	54,465,437	272.12	8.3
1903	57,849,569	281.76	8.4
1904	61,696,354	290.69	9.0
1905	63,474,679	292.55	8.5
1906	74,785,615	336.36	8.8
1907	80,312,375	353.09	8.9
1908 (1)	84,555,146	366.84	10.7
1909 (1)	90,529,014	384.57	10.1
1910 (1)	103,795,701	430.99	10.3

(1) Not including terminal and switching companies.

APPENDIX F.
UNITED STATES SENATE
COMMITTEE ON POST OFFICES AND POST ROADS

September 11, 1912.

My dear Sir:

I hand you herewith a copy of Senate Bill No. 7371, introduced by me by direction of the Senate Committee on Post Offices and Post Roads, embodying a plan recommended by the Post Office Department for determining the compensation to be paid to railroad companies for transportation of the mails. This general subject has been referred to a joint Committee of Congress. The Committee has not yet organized and probably will not do so for several weeks, but as a member of that Committee and as Chairman of the Senate Committee on Post Offices and Post Roads and under authority of Senate Resolution No. 56, I desire to secure immediately such information as may be available for submission to the Committee at its first meeting. I will ask you, therefore, to answer the following questions:

- (1) Do you deem the present plan of compensation an equitable one as between the Government and the railroads? If not, in what respects and as to what classes of railroads is it inequitable?
- (2) Is the underlying principle of the plan embodied in the inclosed bill a proper basis for compensation? If not, wherein is it improper, and why?
- (3) What, in your opinion, is a desirable plan for compensating railroad companies for transporting the mails?

I desire an early reply to these inquiries relating to the general plan, and, if you are not ready to do so now, shall be glad to have you submit later a detailed discussion of this bill and of House Document No. 105, 62d Congress, 1st Session, with which, I assume, you are familiar.

Yours very truly,

(Sgd.) JONATHAN BOURNE, JR.

Chairman Senate Com. on Post Offices and Post Roads..

APPENDIX G.

COMMITTEE ON RAILWAY MAIL PAY.

October 3, 1912.

Hon. Jonathan Bourne, Jr.,
Chairman, Senate Committee on Post Offices and Post Roads,
Washington, D. C.

My dear Sir:—

The Committee on Railway Mail Pay, representing 268 roads operating over 214,275 miles of road, has been investigating the subject of mail compensation for about three years, or since the Post Office Department, in 1909, sent out a series of questions regarding the space furnished for mails in passenger trains, and the cost to railroad companies of the service which they perform for the Government in the carriage of the mails. Therefore the Committee has thought it would be of interest to you to receive from it an answer to the questions propounded by your letter of September 11, 1912, addressed to the officers of railroads throughout the country.

A response to House Document No. 105 is now in course of preparation, and will be submitted at an early date. In the meantime, our committee desires to submit the following replies to your inquiries:

Question 1.—Do you deem the present plan of compensation an equitable one as between the Government and the railroads? If not, in what respects and as to what classes of railroads is it inequitable?

Answer.—The existing law has never worked to the disadvantage of the Government, but has failed to do justice to the railways by reason of infrequent weighing; absence of pay for nearly 40 per cent. of the space occupied as travelling post offices; the performance, without pay, of side and terminal messenger service, and the unjustifiable reduction in pay by the Act of Congress dated March 2, 1907, supplemented by Order No. 412 of the Postmaster General, changing the divisor.

The present law is based upon correct principles, but should be so amended as to provide—

(a) For the Repeal of the Act of March 2, 1907.

Notwithstanding the large increase in every other item connected with the administration of the Post Office Department, the railroads' pay has been singled out as the one element in these operations for concentration of economies. This too, in the face of the fact that the operating expenses of the railroads have been greatly augmented by the requirements of the law with reference to steel equipment, and a general increase in cost characteristic of all business operations.

(b) For annual weighings, and a definite and just method for ascertaining daily average weights.

Under the quadrennial weighing all increased weight of mail during the next succeeding four years is carried by the railroads without any compensation whatever, which is manifestly unfair.

The railroads must provide car space and facilities for the *maximum* weight offered at *any* time, yet they are paid only for the *average* weight carried. The Postmaster General's order covering the divisor has unfairly reduced this *average*.

This provision is essentially necessary in view of the bill establishing the Parcels Post, effective January 1, 1913, which will result in taking from the express service traffic for which the railroad companies now receive compensation and transferring it to the mail service; the bill referred to containing no provision for payment to the railroad companies for the increased tonnage to be handled in mail cars, although such provision was made for the star routes and the city wagon service.

(c) For pay for Apartment Cars on some basis that will compensate for the service.

That the Postmaster General has himself recognized the justice of such a change, is indicated in the following quotation from page 3 of House Document No. 105:—

“* * * an additional amount may be allowed for railway post office cars when the space for distribution purposes occupies 40 feet or more of the car length. No additional compensation is allowed for space for distribution purposes occupying less than 40 feet of the car length. This distinction is a purely arbitrary one and without any logical reason for its existence.”

(d) For a fair allowance to the railroads for the side and terminal messenger service which they perform for the Post Office Department, according to the value of this service to the Post Office Department.

The necessity for this is also emphasized by the establishment of the Parcels Post which will undoubtedly add greatly to the expense of the service.

(e) That all rates of pay should be definite and not subject to the discretion of the officers of the Post Office Department.

Other inequities exist under the present law, but are due to the administrative methods rather than to the law itself.

Question 2.—Is the underlying principle of the plan embodied in the enclosed bill a proper basis for compensation? If not, wherein is it improper, and why?

Answer.—The underlying principle of the plan embodied in Senate Bill No. 7371 is not correct. Any plan of compensation based upon operating cost and taxes, plus six per cent. for profit, is fundamentally wrong, because it makes no allowance for return upon the property employed.

Furthermore, such plan is not correct, because it involves paying the highest rates to the railroad that by reason of physical disabilities or inefficient methods is most expensively operated, and the lowest rates to the railroad whose operations are most efficient and whose service is most satisfactory and valuable to the Post Office Department. Under the plan proposed, a railroad would be penalized for all the capital expenditures made by it for the purpose of decreasing its operating cost, because the more it decreased its operating cost the more it would decrease its mail pay, although by making this improvement in operating cost it would have incurred an additional capital charge upon which it would have to pay dividends or interest.

The ascertainment of the cost to a railroad of conducting the mail service is necessarily very largely a matter of judgment and opinion, because a large proportion of the total operating expenses are expenses common to the freight and passenger traffic and can only be approximately apportioned and there are various formulas existing for such apportionment. It would not be right or proper to entrust to the Post Office Department the discretion of selecting the formulas by which to ascertain these costs, because the Post Office Department has an obvious interest at stake, its object always being to reduce the railroad pay to a minimum.

The estimated cost of a specific service is not a proper basis for fixing rates for transportation of any commodity. The railroads are entitled to receive a full and fair return for the value of the service performed, and the ascertainment of cost of such service is principally of value as a protection against the establishment of confiscatory rates.

Question 3.—What, in your opinion, is a desirable plan for compensating railroad companies for transporting the mails?

Answer.—The existing law has been in effect for nearly forty years, and those who have worked under it are more or less familiar with its operations. If it were amended to correct serious inequities, as suggested in the answer to Question 1, and fairly and impartially administered by the Post Office Department, it would be preferable to any untried or theoretical plan that could be proposed.

Very respectfully yours,

COMMITTEE ON RAILWAY MAIL PAY,

By

(Signed) RALPH PETERS,
Acting Chairman.





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